

Global service
built around you

North

Pre-Renewal Report 2022

Introduction

One of the most challenging years on record, with several concurrent large claims hampering overall P&I sector performance

Accelerating global COVID-19 vaccination programmes have seen the easing of restrictions in numerous countries worldwide, allowing a return to pre-pandemic trade levels in many sectors. The corresponding upsurge in global demand for shipping has restored a sense of optimism to the outlook for the industry.

However, during this period and intertwined with any lingering impact from the pandemic, the prevailing marine insurance environment has faced many challenges, with rapidly rising International Group (IG) pool claim costs posing the most significant risk. Allied to this, there has been a surge in the number of COVID-19 related crew claims linked to the resumption of more usual global trade patterns.

Severe maritime incidents remain relatively rare, but the global shipping industry is judged on its response to these incidents when they arise. The speed and calibre of that response relies on the international network of technical and operational support combined with the financial resources that today's P&I system provides, all supplemented by the backing of a unique reinsurance programme. This well-established and well-regarded system, based on the founding principles of mutuality and support between shipowners, has been instrumental in allowing global shipping to operate

whilst reassuring international regulatory and public stakeholders that there is a tested and proven approach to rapidly and comprehensively dealing with maritime incidents.

The International Group of P&I Clubs offers a unique system of collaboration that has grown through years of continual support and guidance from owners. It is a system that has successfully managed several extraordinarily complex and challenging maritime casualties and the associated claims throughout the decades. In the current demanding marine insurance environment, shipowners will understand the value and necessity of continuing to support and invest in the long-term sustainability of the P&I system.

Despite the challenges presented by the prevailing marine insurance environment, North continues to adapt to the 'new post-COVID normal'. As we transition to new ways of working in the UK and across our international office network, our Members and Clients can continue to rely on North's responsive global service, whatever the circumstances.

James Tyrrell
Chair



Claims Performance



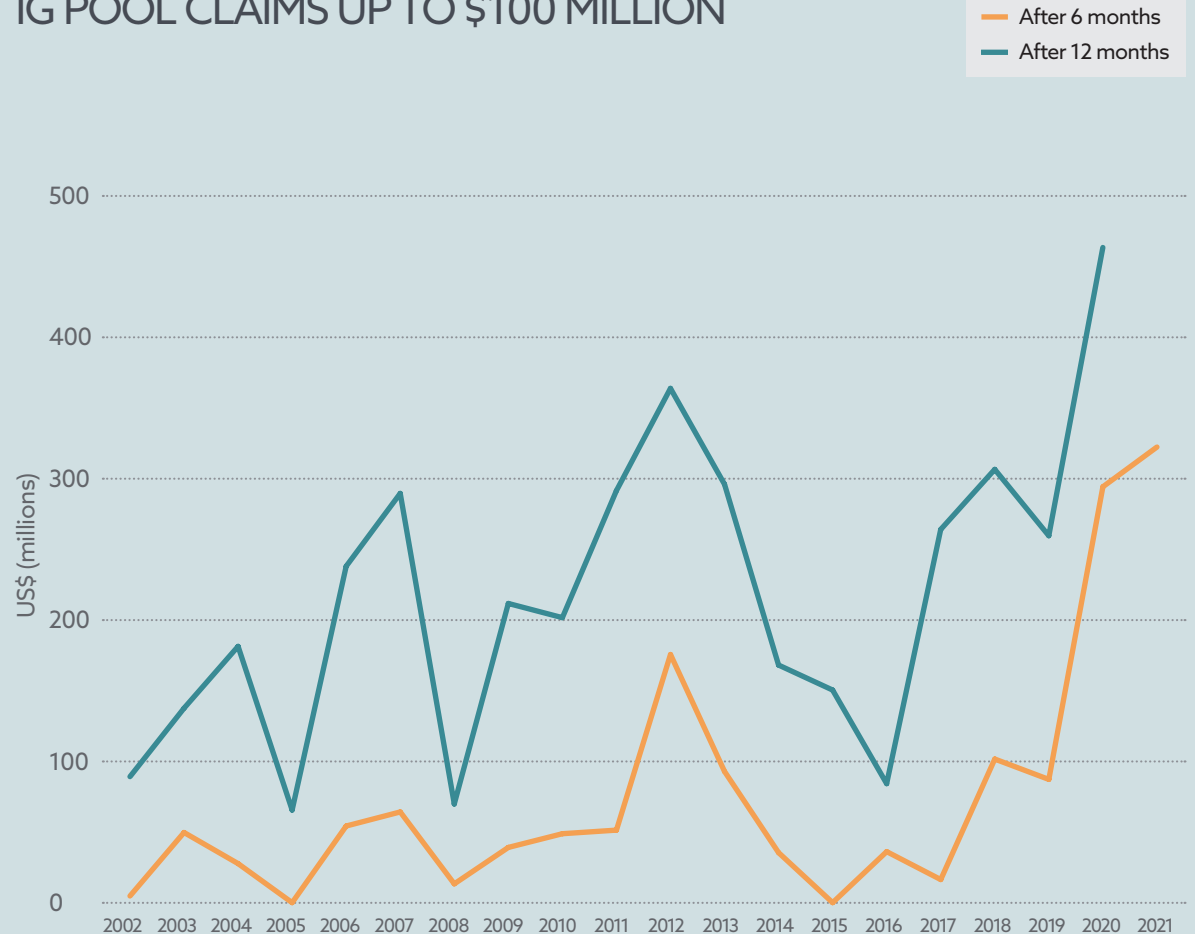
The Challenging International Claims Environment

The escalating loss trend for claims across the maritime industry has intensified over the last few years, driven by the rapid and substantial increases in the third-party casualty costs that impact all shipowners. Coupled with the unusually high levels of pool claims, distortions caused by the COVID-19 pandemic are producing significant spikes in crew claims across the marine liability insurance sector. Our crew claims experience is approximately double the cost of a typical year. Whilst the pandemic is also driving inflationary pressures and ancillary costs across a wide range of claims liabilities, our underlying experience is broadly commensurate with our expectations.

Record Pool Claim Cost

International Group pool claims are at unprecedented levels. At the half-year point, the claims for the 2021 policy year were higher still than 2020 – itself a record year with the six-month claims cost running at nearly double that of any year in the preceding twenty. This is the cost of the complex and well-publicised incidents which the P&I system uniquely manages on behalf of shipowners. There is a growing consensus across the industry that, after experiencing similarly elevated levels of claims over the last four years, we must plan for the likelihood that these costs will not reduce in the immediate future.

IG POOL CLAIMS UP TO \$100 MILLION



Financial Performance



Investments

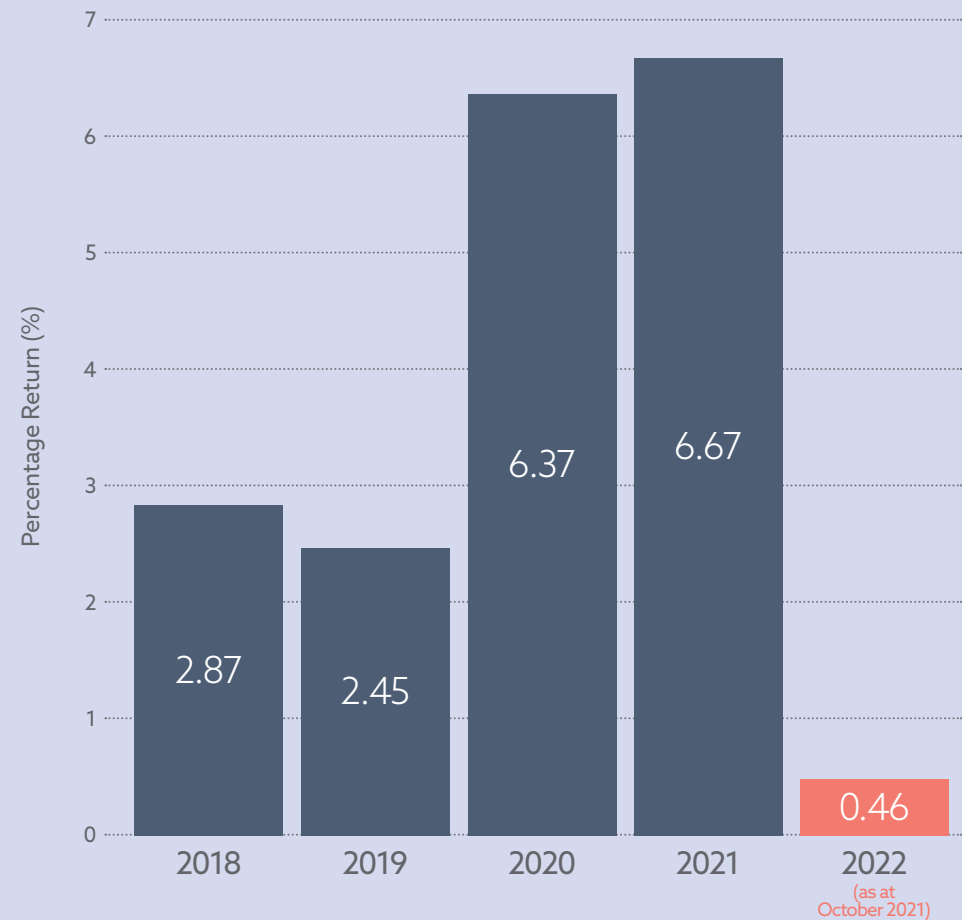
At the end of October 2021, North's investment portfolio delivered a return of around 0.46% (US\$5 million) with returns driven by favourable conditions in equity markets, offset by reductions in the value of bonds. Overall, this is in line with our expectations, and there are indications that lower investment returns may be typical over the next few years.

Indeed, there is much uncertainty for investments as share prices hit record levels going into Q4 of the 2021 calendar year in the face of growing concerns around inflation – or even stagflation – and as markets attempt to second-guess influential decisions by governments and central banks.

We deal with uncertainty through a strategic investment allocation designed to reduce volatility whilst retaining acceptable levels of return. We invest responsibly, with our liabilities being matched for duration and currency in highly-secure asset classes. Our portfolio is well-diversified, and we have a long-term strategy, over which we hold modest dynamic (short-term overlaid) positions in response to market conditions.

INVESTMENT RETURNS

At 20 February





Combined Ratio Performance

Elevated combined ratios are likely to be the norm across the IG P&I Clubs this year as the extremely high level of pool claims coincides with the burden of attritional COVID-19 related losses. At the same time, mutual premium rates have been substantially eroded in recent years, making it almost inevitable that income will be insufficient to meet increasing liabilities. Whilst we benefit from the contribution of our diversified lines, this is not sufficient to offset the substantial costs being incurred across the mutual P&I sector.

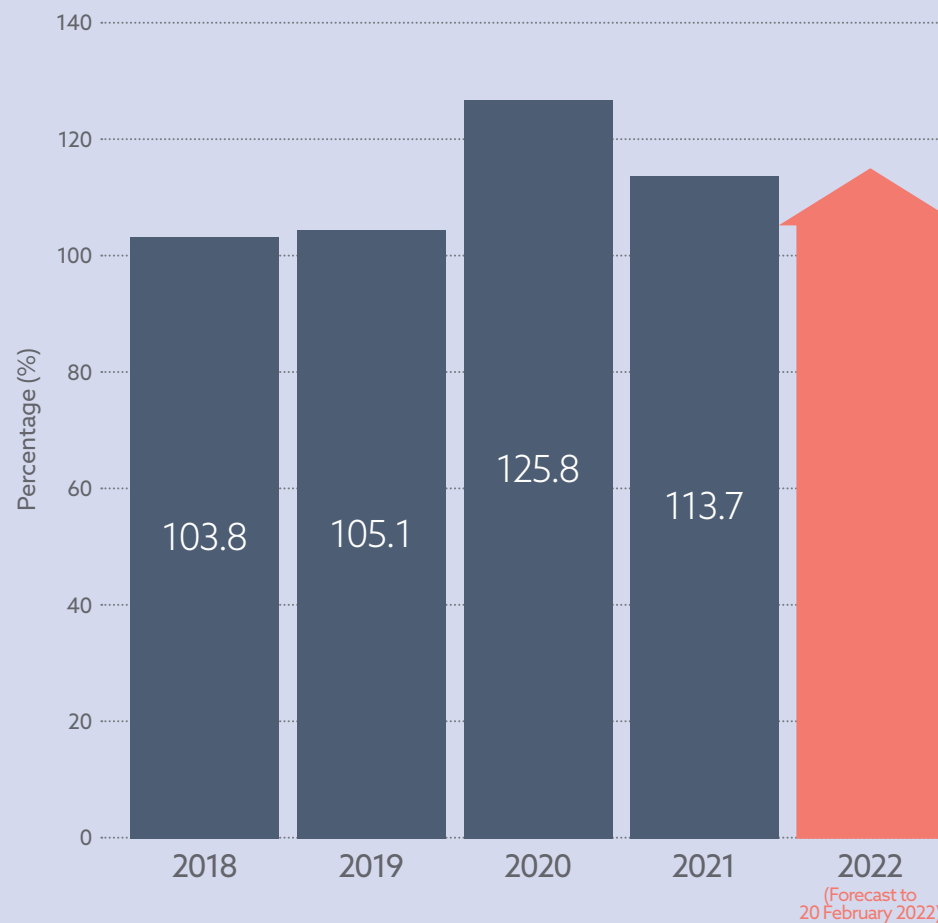
At this half-year point in the policy year, we expect that North's combined ratio at 20 February 2022 will exceed 110%, with a corresponding decline in the Club's free reserves given the lack of investment income. This projected outcome is no more than can be reasonably anticipated considering the low rates at this stage in the insurance cycle and the inherent volatility of claims.

Capital Position

The Club's current capital position is strong. We retain S&P 'AAA' capital coverage and continue to focus on writing our mutual book sustainably. This, alongside the critical contribution from our diversified business lines, is fundamental to our operating performance and future outlook assessments with S&P Global.

Nonetheless, it is clear from the recent actions taken by S&P, taking the number of P&I clubs with a negative outlook to nine, almost three-quarters of the market, that robust action is needed to address operating results. That means sustainable mutual P&I rates and increases at the forthcoming renewal to address the erosion of recent years in the face of rising liabilities.

COMBINED RATIO PERFORMANCE





The 2022 Renewal

The combination of increased severity of IG pool claims over almost four years, coupled with an increased frequency and severity of COVID-19 related claims, has made the task of correcting the premium rating erosion across the P&I industry more acute. The process that began in earnest at the 2021 renewal will, therefore, now require increased focus if, as an industry, we are to maintain a sustainable underwriting model that preserves the unique benefits of the mutual IG P&I system.

With claims costs expected to increase due to a variety of inflationary pressures, further premium corrections are now necessary to redress the prevailing claims trends, the inadequacy of current premium rating levels and the anticipated lack of investment subsidy. Based on our current financial projections, the Board decided that North will require a 15% General Increase in P&I premium rates for the 2022/23 policy year. Of this rise, 7.5% is directly attributable to the costs of meeting the Club's contribution to the escalating value of IG pool claims, which has more than doubled over the past four years. Therefore, the Directors have decided that this contribution will be expected of all mutual P&I Members, irrespective of their record and performance, and will be key to ensuring sustainable underwriting in the future.

The Directors remain confident that announcing a transparent general rating increase remains the most appropriate mechanism to communicate the Club's overall budgetary requirements for the next policy year. This is aligned with North's principles of promoting fair and equitable mutuality within the P&I sector, combined with strong corporate governance. Each individual Member's renewal will, of course, also still be negotiated and agreed upon based on a detailed review and assessment of specific performance, claims records and risk exposure.

In addition, the Directors have decided that the inflationary pressures on claims arising from higher commodity prices, higher charter rates, social inflation and the increased severity of crew claims warrant that all deductibles below US\$50,000 be increased. The Board have also decided that a general premium rating increase of 7.5% will be applied to all FD&D risks written for the 2022/23 policy year.

The broad scope of cover provided by the Club is underpinned by the IG's General Excess of Loss and Collective Overspill Programme (GXL Programme). This unique reinsurance platform enables all IG Clubs, in combination with the IG pooling arrangements, to offer the unparalleled levels of cover that the shipowning industry requires to trade and to navigate all regulatory hurdles. The GXL Programme is also due for renewal in February 2022 following the previous two-year agreement placed in 2020. Unfortunately, the severity of losses to this programme over the last two years, coupled with the hardening of reinsurance pricing conditions and the reinsurers' own market COVID-19 losses and reserves, has caused significant upward pressure in terms of the pricing environment. The likelihood, therefore, is that we will see significant increases imposed, in addition to coverage changes. The Club will continue to transparently apply any reinsurance adjustments to Members' rates and conditions, in addition to any other premium adjustments at the forthcoming renewal.



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